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IN THE

Supreme Court of the United States

October Term, 1941

No. 557

HANCOCK OIL COMPANY,

Petitioner,

vs.

UNIVERSAL OIL PRODUCTS COMPANY,

Respondent.

Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit and Brief in Support Thereof.

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HANCOCK OIL COMPANY,

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vs.

UNIVERSAL OIL PRODUCTS COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE NINTH CIRCUIT.

To the Honorable Chief Justice and the Associate Justices of the Supreme Court of the United States:

Your petitioner, The Hancock Oil Company of California—designated in the court below "Hancock Oil Company" and so designated in the title to documents filed in the Circuit Court of Appeals for the Ninth Circuit, hereafter for convenience referred to as "Hancock"—respectfully files and submits this as its Petition for a Writ of Certiorari to review a decision and judgment of the United States Circuit Court of Appeals for the Ninth Circuit.

Summary and Brief Statement of Matter Involved.

A bill of complaint in the District Court was filed by Universal Oil Products Company, a corporation organized under the laws of the State of South Dakota, alleging that Hancock had infringed three cracking patents owned by complainant. The bill of complaint was filed on March 12, 1935. A supplemental bill of complaint was later, to-wit, on March 31, 1936, filed, in which it was alleged in addition to other matters set forth in the bill of complaint that all the interests of plaintiff and rights under the patents involved had since the commencement of the action been assigned to Universal Oil Products Company, a corporation organized under the laws of the State of Delaware.

The supplemental complaint, in addition to alleging the change in plaintiffs, alleged that two of the three patents involved in the suit at bar, had, by the District Court for the District of Delaware, been declared good and valid, and that thereafter, upon an appeal of said case to the Circuit Court of Appeals for the Third Circuit, the latter court had, after commencement of the case at bar, affirmed the decree of the lower court declaring said patents valid. [Tr. pp. 12-18.] Hancock filed its answer to the bill of complaint [Tr. p. 18] and its answer to the bill in the nature of a supplemental bill of complaint [Tr. p. 42] and by leave of court filed a counterclaim and petition for declaratory relief. [Tr. p. 46.] While said case was so pending in the District Court, *not having been set for trial,* Hancock moved the Court for permis-

sion to file amendments to its answers and counterclaim, said amendments setting up that Universal had been guilty of most reprehensible conduct in obtaining the Dubbs patent, the principal patent involved in the case at bar. The amendments charged among other things, that one Behimer had filed with the Patent Office an application for a patent involving the main points of invention claimed in the Dubbs patent involved in this suit, prior to the application of Dubbs, and that Behimer was the true inventor of the process; that in 1923 the Dubbs patent was declared to be in interference with the Behimer patent; that Behimer had signed statements and affidavits showing his invention to be prior to that claimed by Dubbs; that prior to August, 1927, Behimer was in the employ of the Texas Company, to which company the Behimer invention had been assigned, and that in the month of August, 1927, Behimer was offered $225,000.00 by Universal, and employment, if he would leave the employ of The Texas Company and enter the employ of Universal; that Behimer accepted the offer and on October 5, 1927, at the request of Universal, signed an affidavit which entirely changed the color of his former affidavits filed with the Patent Office, and in which affidavit he stated that the work he had done prior to filing his application for a patent "was merely an abandoned experiment and not a reduction to practice." [Tr. p. 88 *et seq.*]

The proposed amendments set forth that Behimer was thereafter an unwilling witness for The Texas Company

in said contest, and an unwilling witness for anyone attacking said Dubbs patent. The proposed amendments further allege that The Texas Company was, by reason of said act of Behimer's, compelled to, and did settle and terminate the interference in said Patent Office and that said determination of the interference was made without the taking of any testimony or proofs whatsoever. [Tr. p. 90.]

The proposed amendments then set out a course of conduct by Universal, together with other members of the cracking patent monopoly group, constituting a most flagrant and vicious violation of the Sherman Antitrust law, and setting forth great injury and damage to Hancock by reason of said activities of Universal and its associates, and praying for an injunction enjoining Universal from further persecution of Hancock, the violations under the Sherman Antitrust law having particularly to do with the patents involved in the suit at bar.

The proposed amendments further allege that the judgments of the District Court in Delaware and the United States Circuit Court of Appeals for the Third Circuit declaring the patents involved in the suit at bar, to be legal patents—were obtained by suppressing all evidence relating to these matters. [Tr. p. 129 *et seq.*]

In support of Hancock's motion for leave to file the amendments a supplemental affidavit of Hancock sets forth that the first knowledge Hancock had of the facts set forth in the proposed amendments was obtained in

March, 1939 [Tr. p. 146] and in detail shows how the information was obtained and from whom it was obtained.

The District Court, without writing an opinion, denied defendant's motion. [Tr. pp. 340-1.] Hancock then prosecuted its appeal to the Circuit Court of Appeals for the Ninth Circuit, and on August 8, 1940, Universal moved to dismiss the appeal on the ground that the order was not appealable. This motion was argued on October 14, 1940, and the motion to dismiss was denied as to the counterclaim, and the "questions of appealability concerning the proposed amended answer's allegations" were reserved until the argument on the merits of the appeal. The court's opinion on this motion is set out in the transcript commencing at page 365. On March 20, 1941, the appeal was argued on the merits and on June 13, 1941, the Circuit Court of Appeals rendered judgment dismissing the appeal from the order refusing to allow the filing of the amendments to the answer, and affirming the District Court's ruling and order denying Hancock the right to file the amendments to the counterclaim. The opinion of the court is set forth in the transcript at page 375.

Basis of This Court's Jurisdiction.

1. The decision of the Circuit Court of Appeals in holding that the denial of the District Court of Hancock's motion for leave to file amendments to its counterclaim, when that counterclaim is a compulsory counterclaim under the rules of Civil Procedure for District Courts of the United States, and the motion to file the amendments is made within thirty days after Hancock discovered facts upon which the proposed amendments are based, was not an abuse of discretion—is in conflict with the prior decisions of Circuit Courts of Appeals of other Circuits and with prior decisions of this Court, and certiorari is the proper method for correcting the error.

Judicial Code, Sec. 262, 28 U. S. C. A., Sec. 377;

Judicial Code, Sec. 240(a), 28 U. S. C. A., Sec. 347;

620 Church Street Building Corporation et al., Petitioners, 299 U. S. 24-27; 81 L. ed. 16;

United States v. Beatty, 232 U. S. 464; 58 L. ed. 686;

American Construction Co. v. Jacksonville, etc., 148 U. S. 372, 37 L. ed. 486;

Re Chetwood, 165 U. S. 443; 41 L. ed. 782;

Magnum Import Co. v. Coty, 262 U. S. 159; 67 L. ed. 922.

2. The decision of the Circuit Court of Appeals in holding that the proposed amendment to the answer, when filed with proposed amendment setting out counterclaim,

and as a part thereof, was not a final order and not appealable, is in conflict with a prior decision of said court, and with the law—to-wit:

Hancock Oil Company v. Universal Oil Products Company (C. C. A. 9th), 115 Fed. (2d) 45;

Equity Rule 30 (28 U. S. C. A., Sec. 732);

Rules of Civil Procedure for the District Courts of the United States, Rule 13.

3. The decision of the Circuit Court of Appeals in holding, in effect, that petitioner was guilty of laches in not having presented the proposed amendments to the answer and counterclaim at an earlier date is in conflict with the decisions of Circuit Courts of Appeals of other jurisdictions and of this court in that laches should never be imputed when the question of unclean hands is concerned. It is not strictly a defense, but is a matter which the court itself, will inquire into *sua sponte* at any time the matter is called to its attention.

Memphis Keeley Inst. v. Leslie E. Keeley Co., 155 Fed. 964 (C. C. A. 6th);

Moxie Nerve Food Co. v. Modox, 152 Fed. 493;

Uri v. Hirsch, 123 Fed. 568;

C. F. Simmons Medicine Co. v. Mansfield Drug Co., 93 Tenn. 84, 23 S. W. 165;

63 *Corpus Juris* 541.

4. The date of the decree of the Circuit Court of Appeals sought to be reviewed is June 13, 1941.

The Questions Presented.

Is the denial by the District Court in a patent infringement suit of the motion of Hancock for leave to file amendments to its answer and counterclaim a gross abuse of discretion where—

1—the uncontradicted supporting affidavits of Hancock show that the additional facts sought to be set up were discovered by Hancock less than thirty days prior to the time the notice of motion to file the amendments was given;

2—such additional facts set up a valid, *compulsory* counter-claim under the rules of Civil Procedure for the District Courts of the United States, said counterclaim praying for an injunction against Universal; and

3—the proposed amendments set up an additional complete defense to the action; and

4—the case is not set for trial and no showing is made of any prejudice or inconvenience to complainant?

Reasons Relied Upon for the Allowance of the Writ.

1. Hancock was sued in the District Court by Universal for infringing three patents for the cracking of oil, claimed to be owned by Universal, the complainant in suit, the complainant alleging also that two of the three patents sued upon had been declared valid patents in a fully contested suit tried in the District Court of the United States for the District of Delaware, which decision of the District Court had been affirmed by the United States Circuit Court of Appeals for the Third Circuit.

About the middle of March, 1939, W. T. Hancock, an officer of Hancock, petitioner herein, was called to Washington, D. C. by a United States Assistant Attorney General in the Department of Justice who was investigating the facts concerning a group of corporations in relation to the possible violation of the Sherman Antitrust law in connection with the cracking patent monopoly group [Tr. p. 146], and while there, for the first time, discovered among other things of which Hancock had no knowledge prior thereto—

(a) That in an interference contest in the Patent Office in which it was contended that one Otto Behimer was the prior inventor of the process claimed by Universal in the main patent sued upon in the case at bar and which patent invented by Behimer was then owned by The Texas Company, Behimer being then and for many years prior thereto had been in the employ of The Texas Company, that Universal had bribed Behimer by payment to him of $225,000.00 to leave the employ of The Texas Company and accept employment from Universal [Tr. p. 88], and that after Universal so bribed Behimer,

they obtained from him an affidavit which entirely changed the color of his former affidavits filed with the Patent Office, in which latter affidavit he stated that the work he had done prior to filing his application for a patent "was merely an abandoned experiment and not a reduction to practice". That after the filing of said affidavit The Texas Company was compelled to and did settle and terminate the interference in said Patent Office, and that said determination in the Patent Office was made without the taking of any testimony or proofs whatsoever. [Tr. p. 90.]

(b) That Universal, together with the Standard Oil Company of Indiana, the Standard Oil Company of New Jersey and other major oil companies had entered into a series of agreements between themselves whereby Universal and its associates obtained and now control the sale of ninety per cent of all cracked gasoline sold in the United States. The facts regarding these agreements are set out in some detail in the proposed amendments. [Tr. p. 123.]

Immediately upon discovering the above facts and in less than 30 days thereafter, Hancock filed and served its notice of motion for leave to amend its answer and counterclaim by setting up the new facts just discovered, and in the counterclaim prayed for relief by injunction against Universal.

Universal opposed the motion of Hancock to be allowed to set up its new defenses and counterclaim because of delay in presenting the same, and alleged that Universal had been engaged in a suit in the United States District Court in Texas against Danciger Refineries Company, Inc., in which the infringement of two of the

same patents involved in the case at bar were the subject of the suit, and that on October 10 1938, Danciger Refineries, Inc., had filed an answer and counterclaim in which the identical defenses which Hancock sought to set up had been relied upon by defendant. This was urged to show that Hancock should have known about these facts as early as October, 1938, for the reason that the allegations were made a matter of public record in Texas at that time. Universal, in opposing Hancock's motion to file its amendments presented an affidavit to which was attached copies of articles appearing in a magazine published August 3, 1938, which publicized the fact that in a District Court in the Northern District of Illinois a similar defense had been set up. [Tr. p. 289 *et seq.*] Counter-affidavits were filed by Hancock setting forth that Hancock had not known of the publications nor of the suits in Texas and Illinois until March, 1939, when Mr. W. T. Hancock in discussing the matter with A. Danciger, in Washington, and with the United States Assistant Attorney General, had ascertained these facts. [Tr. p. 146.]

The Circuit Court of Appeals [Tr. p. 382] determined that Hancock was not diligent in not having found out that the suit in Texas was pending—the opinion stating that all Hancock would have to do—

> "would be to make periodic inspection of the patent office file wrappers of the patents in suit, for under 35 U. S. C. A. Sec. 70 it is the duty of the Clerk of the District Courts 'within one month after the filing of any action . . . arising under the patent laws, to give notice thereof in writing to the Commissioner of Patents, setting forth in order . . .' the names and addresses of the litigants,

names of the inventors, the numbers of the patents involved, and subsequent notice of any additions of other patents by amendment to the complaint, answer or cross bill or other pleading."

The Circuit Court of Appeals does not indicate how often the records of the Patent Office should be examined, but it evidently thought that inasmuch as the answer in the Danciger Refineries, Inc., case was filed in Texas on October 10, 1938, Hancock should have proceeded to Texas to investigate the pleadings, ascertain the allegations in the answer and counterclaim and then do its best to run down the evidence of the truth or falsity of the allegations and attempt to determine for itself whether or not such a defense is reasonably available, and that not having completed that before April 10, 1939, the date of filing its notice of motion, being in all a total of five months—that it was guilty of lack of diligence so gross as to warrant a court in denying to it the right to present its amended counterclaim and its new defense, notwithstanding the fact that the same constituted a valid and *compulsory* counterclaim and an absolute and complete defense to plaintiff's action.

The foregoing, it would seem, give ample reason for this court to allow the writ of certiorari.

Your petitioner presents herewith, as part of this petition, a brief setting forth more fully its views upon the questions involved, and also presents a transcript of the record in the Circuit Court of Appeals.

Wherefore, your petitioner respectfully prays that a writ of certiorari may issue out of and under the seal of this court, directed to the United States Circuit Court

of Appeals for the Ninth Circuit commanding said court to certify and send to this court, on a day certain, to be therein designated—a full and complete transcript of the record and all proceedings in said Circuit Court of Appeals in said case therein entitled "Hancock Oil Company, Appellant, vs. Universal Oil Products Company, Appellee" numbered 9530 in said court, to the end that said case may be reviewed and determined by this Court and that the said judgment of the Circuit Court of Appeals in said case may be reviewed by this Honorable Court, and that your petitioner may have such other and further relief in the premises as to this Honorable Court may seem just.

THE HANCOCK OIL COMPANY OF CALIFORNIA
(a Delaware Corporation),

Petitioner,

By F. A. KNIGHT,

Counsel.

1115 Security Building, Long Beach, California,

BRIEF IN SUPPORT OF PETITION FOR CERTIORARI.

The Opinions of the Court Below.

The opinion of the United States Circuit Court of Appeals for the Ninth Circuit denying the motion of appellee to dismiss the appeal is reported in 115 Fed. (2d) at page 45, and is set forth in the record of this case, commencing at page 365.

The opinion of the United States Circuit Court of Appeals for the Ninth Circuit dismissing Hancock's motion to file its amended and supplemental answer and affirming the decision of the District Court denying defendant's motion to file amendments to its counterclaim is set forth in the transcript of the record, commencing at page 375.

The decision of the District Court denying Hancock's motion to file amendments is set forth on pages 340 and 341 of the transcript of the record.

Jurisdiction.

The decision of the Circuit Court of Appeals was entered June 13, 1941. [Tr. p. 375.]

The jurisdiction of this Court is invoked under the authority of Section 240(a), as amended, or the Judicial Code (28 U. S. C. A., Sec. 347), and under the authority of Section 262 of the Judicial Code (28 U. S. C. A., Sec.

377). The petition is filed in accordance with Rule 38 of this Court.

Judicial Code, Section 262 (28 U. S. C. A., Sec. 377), reads as follows:

> "Sec. 377. (Judicial Code, Section 262) POWER TO ISSUE WRITS. The Supreme Court and the District Courts shall have power to issue writs of *scire facias*. The Supreme Court, the Circuit Courts of Appeals and the District Courts shall have power to issue all writs not specifically provided for by statute, which may be necessary for the exercise of their respective jurisdictions, and agreeable to the usages and principles of law."

In the case of *620 Church Street Building Corporation et al.*, petitioners (October, 1936), 299 U. S. 24-27, 81 L. Ed. 16, we have a case in which the Circuit Court of Appeals, Seventh Circuit, denied leave to appeal from a decree of the District Court of the United States confirming a plan of reorganization in a proceeding under Section 77B of the Bankruptcy Act. Mr. Chief Justice Hughes, in writing the opinion reversing the action of the Circuit Court of Appeals, stated:

> "Although the Circuit Court of Appeals declined jurisdiction, its action may properly be reviewed upon a writ of certiorari under the general power conferred by Judicial Code, Sec. 262, 28 U. S. C. A., Sec. 377. That provision contemplates the employment of this writ in instances not covered by Sec. 240 of the Judicial Code (28 U. S. C. A., Sec. 347), and affords ample authority for using the writ as an auxiliary

process and as a means 'of giving full force and effect to existing appellate authority and of furthering justice in other kindred ways.' United States v. Beatty, 232 U. S. 463, 467, 58 L. Ed. 686, 687, 34 S. Ct. 392; American Constr. Co. v. Jacksonville, T. & K. W. R. Co., 148 U. S. 372, 379, 380, 37 L. Ed. 486, 489, 37 S. Ct. 758; *Re* Chetwood, 165 U. S. 443, 461, 462, 41 L. Ed. 782, 788, 17 S. Ct. 385; Magnum Import Co. v. Coty, 262 U. S. 159, 162, 67 L. Ed. 922, 923, 43 S. Ct. 531."

In the case of *United States v. Beatty,* 232 U. S. 464, 58 L. Ed. 686, we have a case in which a writ of certiorari was denied for the reason that in that case the Court held that the decision of the Circuit Court of Appeals was reviewable by writ of error, under Section 241, the Court, however, saying:

"We do not overlook Sec. 262 of the Judicial Code (36 Stat. at L. 1162, Chap. 231, U. S. Comp. Stat. Supp. 1911, p. 235), formerly Sec. 716 of the Revised Statutes (U. S. Comp. Stat. 1901, p. 580), which empowers this Court to issue all writs, not specifically provided for by statute, which may be necessary for the exercise of its jurisdiction, and agreeable to the usages and principles of law. No doubt, this provision contemplates the employment of the writ of certiorari in instances not covered by Sec. 240 and affords ample authority for using the writ as an auxiliary process, and whenever there is imperative necessity therefor, as a means of correcting excesses of jurisdiction, of giving full force and effect to

existing appellate authority, and of furthering justice in other kindred ways."

Re Chetwood, 165 U. S. 443, 41 L. Ed. 782;

United States v. Lehigh Valley R. Co., 220 U. S. 257, 55 L. Ed. 458.

In the case of *Magnum Import Co. v. Coty,* 262 U. S. 159, 67 L. Ed. 922, we have a case in which the petitioner filed a petition for writ of certiorari to review the Circuit Court of Appeals' (Second Circuit) decision—the opinion being written by Mr. Chief Justice Taft. In this case the jurisdiction of the Court was questioned by the respondent —but the Court said:

"Under Section 262 of the Judicial Code this Court is given power to issue all writs not specifically provided for by statute which may be necessary for the exercise of its jurisdiction and agreeable to the usages and principles of law. Here the jurisdiction of this Court to grant the application for certiorari, already made and pending, is conferred by Section 240 of the Judicial Code. That section provides that in any case, civil or criminal, in which the judgment or decree of the Circuit Court of Appeals is made final, it shall be competent for this Court, by certiorari, upon the petition of a party thereto, to bring the case here for review as if it had come by error or appeal."

Statement of the Case.

A summary of the case will be found under the heading "Summary and Brief Statement of Matter Involved" in the petition for writ of certiorari to which this brief is annexed and, in the interest of brevity, will not be repeated in this brief.

Specification of Errors.

I. The Circuit Court of Appeals is in error in dismissing Hancock's appeal from the order denying Hancock's motion to file its amendments to its answer.

II. The decision of the Circuit Court of Appeals is in error in holding:

> that gross abuse of discretion was not committed by the District Court in refusing to allow Hancock to file its proposed amendments when those proposed amendments:
>
> (1) constituted a compulsory counterclaim;
>
> (2) constituted a complete defense to Universal's action; and
>
> (3) were presented within 30 days from the time the facts were discovered by Hancock.

ARGUMENT.

POINT I.

The Circuit Court of Appeals Is in Error in Dismissing Hancock's Appeal From the Order Denying Hancock's Motion to File Its Amendments to Its Answer.

In dismissing the appeal the Circuit Court of Appeals held that the order of the District Court denying Hancock the right to file amendments to its answer was not a final order from which an appeal could lie. An examination of the proposed amendments shows clearly that the proposed amendments to the answer and to the counterclaim were inseparably linked together as one process—the two documents being, in many places, incorporated one a part of the other by reference. The original counterclaim filed on December 9, 1936, was a part of the answer of Hancock under Equity Rule 30 (28 U. S. C. A., Sec. 30), which was the equity rule in force at that time. It is impossible to separate the two documents without, in large part, destroying the effect of each.

The Circuit Court of Appeals, in ruling upon the motion of Universal to dismiss the appeal in the case at bar, clearly passed upon this point and laid down the rule in the following language:

> "Though a separate document, Hancock's first counterclaim of December 9, 1936, was a part of its answer under Equity Rule 30 (28 U. S. C. A., Sec. 732), then controlling. Likewise, under Rule 13 of Rules of Civil Procedure, Hancock's proposed amended and supplemental answer and the proposed amendment to its counterclaim, both filed April 20, 1939, are proposed amendments to its answer. That the pleader so regarded them is shown by the embody-

ing in its proposed amended counterclaim, by reference to its proposed amended answer, allegations in the answer supporting the counterclaim."

Hancock Oil Company v. Universal Oil Products Company (C. C. A. 9th), 115 Fed. (2d) 45 [set forth in the transcript of the record, commencing at page 365];

Equity Rule 30 (28 U. S. C. A., Sec. 732);

Rule 13, Rules of Civil Procedure for District Courts of the United States.

POINT II.

The Decision of the Circuit Court of Appeals Is in Error in Holding:

that gross abuse of discretion was not committed by the District Court in refusing to allow Hancock to file its proposed amendments when those proposed amendments:

(1) constituted a compulsory counterclaim;

(2) constituted a complete defense to Universal's action; and

(3) were presented within 30 days from the time the facts were discovered by Hancock.

(1) Proposed Amendment a Compulsory Counterclaim.

The proposed amendments to the counterclaim are based upon the authority of Title 15, U. S. C. A., Sections 1, 2, 15 and 26, which read as follows:

"Section 1. Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty. Every contract, combination in the form of trust or

otherwise, or conspiracy, in restrain of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal: Provided, that nothing herein contained shall render illegal contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trade mark, brand, or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law or public policy now or hereafter in effect in any state, territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title, as amended and supplemented: Provided, further, that the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a misdemeanor and, on conviction thereof, shall be punished by fine not exceeding $5,000.00 or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

"Section 2. Monopolizing trade a misdemeanor; penalty. Every person who shall monopolize, or at-

tempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a misdemeanor and, on conviction thereof, shall be punished by fine not exceeding $5,000.00, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court."

"Section 15. Suits by persons injured; amount of recovery. Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any District Court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the costs of suit, including a reasonable attorney's fee."

"Section 26. Injunctive relief for private parties; exception. Any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by a violation of the antitrust laws, including sections 13, 14, 18 and 19 of this chapter, when and under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings, and upon the execution of proper bond against damages for an injunction improvidently granted and a showing that the danger of irreparable loss or damage is immediate, a preliminary injunction may issue: Provided, that nothing herein contained shall be construed to entitle any person, firm, corporation or association except the United States, to bring suit in equity for injunctive

> relief against any common carrier subject to the provisions of Chapter 1 of Title 49, Transportation, in respect of any matter subject to the regulation, supervision or other jurisdiction of the Interstate Commerce Commission."

The authority for allowing the filing of this amendment at this time, although it might possibly more accurately be called an "Amendment and Supplement" to the counterclaim, is found under Rule 13 of the Rules of Civil Procedure. Subdivision (f) of Rule 13 reads as follows:

> "(f) Omitted Counterclaim. When a pleader fails to set up a counterclaim through oversight, inadvertence or excusable neglect, or when justice requires, he may, by leave of court, set up the counterclaim by amendment."

The proposed amendment to the counterclaim is what is designated under Rule 13 of the Rules of Civil Procedure as a compulsory counterclaim for the reason that "it arises out of the transaction or occurrence that is the subject-matter of the opposing party's claim."

Subdivision (a) of Rule 13 reads as follows:

> "(a) Compulsory Counterclaims. A pleading shall state as a counterclaim any claim, not the subject of a pending action, which at the time of filing the pleading the pleader has against any opposing party, if it arises out of the transaction or occurrence that is the subject-matter of the opposing party's claim and does not require for its adjudication the presence of third parties of whom the court cannot acquire jurisdiction."

Universal, in its memorandum in opposition to these motions to amend, took the position that the proposed

counterclaim does not arise out of any of the transactions which are the subject-matter of the bill of complaint. An examination of the facts set up in the counterclaim, however, negatives this claim of Universal. One of the leading authorities which will illustrate the fact that the proposed amendment to the counterclaim is a compulsory one is the case of *Moore v. New York Cotton Exchange* (1926), 270 U. S. 593, 70 L. Ed. 750.

The facts of this case were that the New York Cotton Exchange furnished quotations of prices established on its exchange to applicants of which it approved, and had contracted with the Western Union Company to permit the latter company, for a stated sum, to have the privilege of receiving and distributing the price quotations throughout the United States to such persons as the exchange approved. The plaintiff, president of the Odd-Lot Cotton Exchange, had applied to the telegraph company for ticker service, but was refused, since the New York Exchange declined to give its consent to the installation of ticker service on the ground, among others, that the Odd-Lot was essentially a bucket shop. Plaintiff alleged that Western Union's contract violated the Sherman Anti-Trust Act and prayed that the contract be cancelled, and that the defendants, the New York Cotton Exchange and the Western Union Company be required to install a ticker and furnish the Odd-Lot and its members, as they do others, with continuous cotton quotations. Defendant's answer, in addition to denials and affirmative defense made, set up a counterclaim to the effect that the Odd-Lot, although it had been refused permission to use the quotations, was purloining them, and asked that it be enjoined from continuing such practices. The United States Supreme Court held that the counterclaim was

compulsory, since it arose "out of the transaction which is the subject-matter of the suit," saying, at page 757, Law Edition:

> " 'Transaction' is a word of flexible meaning. It may comprehend a series of many occurrences, depending not so much upon the immediateness of their connection as upon their logical relationship. The refusal to furnish the quotations is one of the links in the chain which constitutes the transaction upon which appellant here bases its cause of action. It is an important part of the transaction, constituting the subject-matter of the counterclaim. It is the one circumstance without which neither party would have found it necessary to seek relief. Essential facts alleged by appellant enter into and constitute, in part, the cause of action set forth in the counterclaim. That they are not precisely identical or that the counterclaim embraces additional allegations as, for example, that appellant is unlawfully getting the quotations, does not matter. To hold otherwise would be to rob this branch of the rule (the compulsory counterclaim provision of equity rule 30) of all serviceable meaning, since the facts relied upon by the plaintiff rarely, if ever, are in all particulars the same as those constituting the defendant's counterclaim."

A very convincing case sustaining the claim of defendant that this is a compulsory counterclaim and arises out of the transaction or occurrence that is the subject matter of plaintiff's bill of complaint, is the case of—

> *Keystone Driller Co. v. General Excavator Co.*, 290 U. S. 240.

In that case the defense of unclean hands was set up and plaintiff took the position that its acts of misconduct of which the defendant complained, had no relation to

anything involved in the suit or subject matter of the plaintiff's bill—the misconduct of the plaintiff having been the obtaining of a decree of a District Court against a defendant named Byers adjudging a patent valid and infringed, obtaining that judgment by suppressing certain evidence which should have been presented to the court, and for corrupting a witness named Clutter by bribing him to make a false affidavit regarding the patent.

In the *Keystone* case a preliminary injunction had been applied for and the defendant was required to file a bond with the court to prevent the temporary injunction being issued. Plaintiff contended that there was no relation between the allegation that it had obtained the judgment by unconscionable means in the former case, and the application for injunction in the *Keystone* case. The Supreme Court, however, said at page 246·

> "Neither the plaintiff's corruption of Clutter in respect of the first Downie patent, nor its use in these cases of the Byers decree can fairly be deemed to be unconnected with causes of action based on the other patents. . . .Had the corruption of Clutter been disclosed at the trial of the Byers case the court undoubtedly would have been warranted in holding it sufficient to require a dismissal of the cause of action there alleged for the infringement of the Downie patent. Promptly after the decision in that case plaintiff brought these suits and immediately applied for injunctions *pendente lite*. It used the decree of validity there obtained in support, if not indeed, as the basis, of its applications. And plaintiff's misconduct in the Byers suit remaining undisclosed, that decree was given weight on the motions for preliminary injunctions. . . .

> The amounts of the bonds required in lieu of injunctions attest the importance of the advantage obtained by use of the decree. While it is not found, as reasonably it may be inferred from the circumstances, that from the beginning it was plaintiff's intention through suppression of Clutter's evidence to obtain decree in the Byers case for use in subsequent infringement suits against these defendants and others, it does clearly appear that the plaintiff made the Byers case a part of his preparation in these suits."

Moore's Federal Practice, under the new Federal Rules, Volume 1, page 684—

in discussing compulsory counterclaims as set out in the rules, says:

> "subdivision (f) protects against oversight, inadvertence, or excusable neglect. Therefore, in the light of the Moore case, *supra,* interpreting Equity Rule 30, the broadening of the base of that rule so that Rule 13 (a) applies to all claims, legal and equitable, that arise out of the transaction or occurrence, coupled with the fact that the rule is most carefully drafted to guard against undue hardship, *warrants a most liberal construction."* (Italics ours.)

Again, at page 681, volume 1 of Moore's Federal Practice, in discussing compulsory counterclaims, we find the following:

> "While neither Equity Rule 30 nor the present rule expressly provides that failure to assert a compulsory counterclaim will be deemed to preclude its later assertion, such result was reached under the Equity rule, and will undoubtedly be reached under Rule 13, in accordance with similar reasoning, i. e.,

that the principle of *res adjudicata* applies to all issues that should have been raised, even though actually omitted. Of course, if defendant is in any doubt as to the nature of his counterclaim, whether permissive or compulsory, careful practice requires him to plead it, in order to protect himself."

In volume 1 of Moore's Federal Practice, at page 722, when discussing the setting up of a counterclaim by amendment under Rule 13, Subdivision (f) which reads as follows:

"(f) Omitted Counterclaim. When a pleader fails to set up a counterclaim through oversight, inadvertence, or excusable neglect, or when justice requires, he may by leave of court, set up the counterclaim by amendment."

we find the following—

"Subdivision (f) will find its most useful application in the case of compulsory counterclaims. Inas much as a party could later be met successfully with a plea of *res judicata* in a suit on a claim within subdivision (a) which he had failed to plead, *the courts should be very liberal in allowing amendments* to include compulsory counterclaims, and even permissive counterclaims where no prejudice would result, where the pleader has not been guilty of inexcusable neglect, or has not by reprehensible conduct deprived himself of any claim to special consideration by the court. The general amendment provisions of the new rules could take care of the omitted counterclaim situation. The present section, however, reinforces those provisions in unmistakable terms in the interest of justice." (Italics ours.)

(2) PROPOSED AMENDMENTS A COMPLETE DEFENSE.

The proposed amendments to the answer and counterclaim, in addition to the allegations of the original answer and counterclaim, set out new and additional facts. [Tr. pp. 82 to 125.] These allegations constitute an entirely new defense charging that Universal comes into court with unclean hands and has been guilty of wilful, inequitable, reprehensible and unscionable conduct in respect to the Dubbs patent—which is the main patent sued upon in this action—and in this respect we call the Court's attention to the fact that the amendments attack the conduct of Universal as such conduct has a direct and immediate bearing upon the subject matter of the suit. We will not here repeat these accusations. They have been heretofore referred to and are set out in detail in the transcript. [Tr. pp. 82 to 125.] The allegations to the effect, among other things, that $225,000.00 was paid to Behimer by Universal, and that he was given employment by that company and in less than thirty days thereafter signed an affidavit which was filed in the Patent Office entirely changing the color of the facts theretofore stated by him in affidavits filed in the Patent Office, and that the fact that these matters were entirely kept from the Court in the trial of the Delaware case in which the patents involved in this suit were declared legal patents—constitute a complete defense to Universal's action against Hancock—especially as the obtaining of this judgment in Delaware is set up in the supplemental bill of complaint. This court has, in the case of

Keystone Driller Co. v. General Excavator Co., 290 U. S. 240, 78 L. Ed. 293 (Dec. 4, 1933),

decided a case which is almost identical with the case at bar. The opinion in this case was delivered by Mr. Jus-

tice Butler, and sufficient facts are set out in the following quotation from the opinion to show the applicability of the law there laid down in determining the case at bar.

The court, at page 241, said:

> "The question presented is whether the Circuit Court of Appeals rightly applied the maxim, 'He who comes in equity must come with clean hands.'
>
> Petitioner owns five patents which may be conveniently identified as the Clutter patent and the four Downie patents. They all cover devices constituting parts of a ditching machine operated on the principle of a mechanical hoe or mattock. The Clutter patent is basic and the Downie patents are for claimed improvements.
>
> Prior to the commencement of these suits, the petitioner brought a suit in the Eastern Division of the Northern Ohio District against the Byers Machine Company for infringement of the first three patents. January 31, 1929, the court held them valid and infringed and granted injunction. 4 F. Supp. 159. Defendant appealed.
>
> February 9, 1929, petitioner brought these two suits in the Western Division of the same District, one against the General Excavator Company and the other against the Osgood Company. In each, plaintiff alleged infringement by defendant of the same three patents. Plaintiff immediately applied for temporary injunctions to restrain further infringement. The applications were based upon the complaints, supporting affidavits and the pleadings, opinion and decree in the Byers case. The court filed a memorandum in which it is stated that, while plaintiff had sustained its patents as against the defenses of an alleged impecunious infringer, defendants were

in good faith pressing new defenses that seemed to have merit enough to prevent the application of the rule permitting a temporary injunction merely because of the prior adjudication. The court denied the injunctions but on condition that defendants give bonds to pay the profits or damages that might be decreed against them. In August, 1929, plaintiff filed supplemental complaints alleging infringement of the other two patents. November 5, 1930, the Circuit Court of Appeals affirmed the decree in the Byers case. 44 F. 2d 283. Then these cases were consolidated for trial. Plaintiff withdrew its claim that the Osgood Company infringed the last patent. The District Court held the Clutter patent and the first and fourth Downie patents valid and infringed, the second Downie not infringed, and the third Downie patent invalid.

At the trial of these cases, defendants introduced evidence that plaintiff did not come into court with clean hands. It was sufficient to sustain findings of fact made by both courts, in substance as follows: June 27, 1921, Downie filed the application on which was issued his first patent. In the preceding winter he had learned of a possible prior use at Joplin, Missouri, by Bernard R. Clutter. The latter is a brother of the patentee of the Clutter patent and had then recently been in the service of plaintiff as demonstrator in the use of ditching machinery. Downie made the application and assigned his rights to plaintiff of which he was secretary and general manager. The patent issued and plaintiff, contemplating the bringing of an infringement suit thereon against the Byers Machine Company, was advised that the prior use at Joplin was sufficient to cast doubt upon the validity of the patent. Downie then went to Bernard R. Clutter and for valuable con-

siderations—which are described in the opinion of the Circuit Court of Appeals, 62 F. (2d) 48, and need not be detailed here—obtained from Clutter an affidavit prepared by Downie to the effect that Clutter's use of the device was an abandoned experiment and also obtained Clutter's agreement to assign plaintiff any rights he might have as inventor, to keep secret the details of the prior use, and, so far as he was able, to suppress the evidence. No proof of such use was produced at the trial of that case. The defendants in these suits took Clutter's deposition early in 1930. He did not then disclose his arrangement with plaintiff for concealment of evidence in the Byers case. Their suspicisions being aroused by his testimony, defendants in the latter part of that year again examined him and secured facts upon which they were able to compel the plaintiff to furnish the details of the corrupt transaction.

The District Court characterized Downie's conduct as highly reprehensible and found that his purpose was to keep Clutter silent. But it also found that the plaintiff did nothing to suppress evidence in these cases. It expressed the opinion that matters pertaining to the motion for preliminary injunction had no bearing upon the merits, and that plaintiff's use of the Byers decree was not a fraud upon the Court. And it ruled the maxim did not apply. The Circuit Court of Appeals held the contrary, reversed the decrees of the district court and remanded the cases with instructions to dismiss the complaints, without prejudice. 62 F. (2d) 48, 64 F. (2d) 39.

Plaintiff contends that the maxim does not apply unless the wrongful conduct is directly connected with and material to the matter in litigation, and that, where more than one cause is joined in a bill and plaintiff is shown to have come with unclean

hands in respect of only one of them, the others will not be dismissed.

The meaning and proper application of the maxim are to be considered. As authoritatively expounded, the words and the reasons upon which it rests extend to the party seeking relief in equity. 'It is one of the fundamental principles upon which equity jurisprudence is founded, that before a complainant can have a standing in court he must first show that not only has he a good and meritorious cause of action, but he must come into the court with clean hands. He must be frank and fair with the court, nothing about the case under consideration should be guarded, but everything that tends to a full and fair determination of the matters in controversy should be placed before the court.' Story, Eq. Jur., 14th ed., Sec. 98. The governing principle is 'that whenever a party who, as actor, seeks to set the judicial machinery in motion and obtain some remedy, has violated conscience, or good faith, or other equitable principles, in his prior conduct, then the doors of the court will be shut against him *in limine;* the court will refuse to interfere on his behalf, to acknowledge his right, or to award him any remedy.' Pom. Eq. Jur., 4th Ed., section 397. This court has declared: 'it is a principle in chancery that he who asks relief must have acted in good faith. The equitable powers of this court can never be exerted in behalf of one who has acted fraudulently or who by deceit or any unfair means has gained an advantage. To aid a party in such a case would make this court the abetter of iniquity.' Bein v. Heath, 6 How. 228, 247, 12 L. ed. 416, 424. And again: 'A court of equity acts only when and as conscience commands, and if the conduct of the plaintiff be offensive to the dictates of natural justice, then, whatever may be

the rights he possesses and whatever use he may make of them in a court of law, he will be held remediless in a court of equity.' Deweese v. Reinhard, 165 U. S. 386, 390, 41 L. ed. 757, 758, 17 S. Ct. 340.

But courts of equity do not make the quality of suitors the test. They apply the maxim requiring clean hands only where some unconscionable act of one coming for relief has immediate and necessary relation to the equity that he seeks in respect of the matter in litigation. They do not close their doors because of plaintiff's misconduct, whatever its character, that has no relation to anything involved in the suit, but only for such violations of conscience as in some measure affect the equitable relations between the parties in respect of something brought before the court for adjudication. Story, Eq. Jur., Sec. 100; Pom., Eq. Jur., Sec. 399. They apply the maxim not by way of punishment for extraneous transgressions, but upon considerations that make for the advancement of right and justice. They are not bound by formula or restrained by any limitation that tends to trammel the free and just exercise of discretion.

Neither the plaintiff's corruption of Clutter in respect of the first Downie patent nor its use in these cases of the Byers decree can fairly be deemed to be unconnected with causes of action based on the other patents.

Its bills show the devices covered by the five patents to be important, if not essential, parts of the same machine. And its claims warrant the inference that each supplements the others. This is made plain by mere reference to the things patented. The Clutter device is for the hoe or mattock arrangement. The first Downie is for an improvement designed, by a drop bottom scoop and other means, to permit more

accurate dumping. The second Downie had for its main purpose the elimination of a 'blind spot' in the unloading operation. The third Downie makes possible and convenient the use of scoops of different widths upon the same machine. The fourth Downie device consists of detachable rake teeth for a scoop.

Had the corruption of Clutter been disclosed at the trial of the Byers case the court undoubtedly would have been warranted in holding it sufficient to require a dismissal of the cause of action there alleged for the infringement of the Downie patent. Promptly after the decision in that case plaintiff brought these suits and immediately applied for injunctions *pendente lite.*

It used the decree of validity there obtained in support, if not indeed as the basis, of its applications. And plaintiff's misconduct in the Byers suit remaining undisclosed, that decree was given weight on the motions for preliminary injunctions. Leeds & C. Co. v. Victor Talking Machine Co., 213 U. S. 301, 312, 53 L. Ed. 805, 810, 29 S. Ct. 495; 1 Walker, Patents, 6th Ed., Sec. 704 *et seq.* As the litigation was to continue for years and the use of the devices in question was essential to the ditching machinery, it is clear that the injunctions would have been a burdensome detriment to defendants. The amounts of the bonds required in lieu of injunctions attest the importance of the advantage obtained by use of the decree. While it is not found, as reasonably it may be inferred from the circumstances, that from the beginning it was plaintiff's intention through suppression of Clutter's evidence to obtain decree in the Byers case for use in subsequent infringement suits against these defendants and others, it does clearly appear that the plaintiff made the Byers case a part of his preparation in these suits. The use actually

made of that decree is sufficient to show that plaintiff did not come with clean hands in respect of any cause of action in these cases.

The relation between the device covered by the first Downie patent and those covered by the other patents, taken in connection with the use to which plaintiff put the Byers decree, is amply sufficient to bring these cases within the maxim. Conrad v. Nicoll, 4 Pet. 291, 297, 7 L. Ed. 862, 864; Clarke v. White, 12 Pet. 178, 193, 9 L. Ed. 1046, 1052; Carrington v. Pratt, 18 How. 63, 67, 15 L. Ed. 267, 268; Kitchen v. Rayburn (United States v. Caldwell), 19 Wall. 254, 263, 22 L. Ed. 64, 66.

Decrees affirmed."

(3) No Laches Nor Lack of Diligence Shown.

Universal, when presented with verified charges in the proposed amendments accusing it of the most reprehensible and dishonorable acts in connection with obtaining its judgment alleged in its complaint to have been obtained in the United States Courts in the Third Circuit, instead of promptly offering to meet the issue, fought the filing of the amendments tooth and nail to try to prevent the issue involving their alleged perfidy being tried. An affidavit of one of the attorneys for Universal, filed in opposition to Hancock's motion for leave to file the amendments, set forth that in a United States District Court in Texas, in a suit in which Universal had sued Dancigner Refineries, Inc., that a defense had been set up almost identical with the defense sought to be set up in the amendments by Hancock. The affidavit of the attorney then stated that this answer setting out these facts had been filed in the Texas case on October 10, 1938, and that that constituted a public record, giving notice of

those facts to Hancock and to the world—and that because Hancock did not ascertain the contents of that answer until its officer, W. T. Hancock, met Mr. Danciger in Washington on March 13, 1939, five months after the filing of the answer—Hancock was guilty of laches.

The Circuit Court of Appeals took the position that because of the facts set out in that affidavit filed by Universal—

> "no attempt was made to show diligence on the part of Hancock to ascertain the facts alleged in the proposed amendment to the counterclaim or to keep in touch with other suits involving the patents here involved."

The court further stated—

> "It should be remembered in this connection that in order for Hancock to have knowledge of such suits all that would be necessary would be to make periodic inspections of the patent office file wrappers of the patents in suit for under 35 U. S. C. A. Sec. 70 it is the duty of the Clerk of the District Courts "within one month after the filing of any action . . . arising under the patent laws, to give notice thereof in writing to the Commissioner of Patents, setting forth in order . . .' the names and addresses of the litigants, names of the inventors, the numbers of the patents involved, and subsequent notice of any additions of other patents by amendment to the complaint, answer or cross-bill or other pleading."

The Circuit Court of Appeals held that although Hancock showed by its affidavits on motion for leave to file amendments in the lower court that it had no knowledge, nor means of obtaining knowledge of the facts set up in the proposed amendments to the answer and counterclaim

until March 13, 1939, that, never-the-less, Hancock was guilty of laches because it had not kept sufficiently closely in touch with the Patent Office in Washington regarding the patents involved in the suit. The court assumed, although no proof was presented, that the clerk of a District Court in Texas had filed with the Patent Office a notice that a suit involving the patents in the case at bar had been filed in Texas and a notation made on the file wrapper of the patent involved. The Circuit Court, in effect, held that Hancock would have to make continual inspections of the file wrappers in Washington respecting the patents in suit to ascertain whether or not a suit was filed anywhere in the United States involving the patent, and that thereafter Hancock would be required to ascertain when an answer was filed, or an amendment to an answer, which would set forth any facts which might be useful to Hancock in defending itself—and that upon ascertaining any facts set out in any answer, Hancock must then make an investigation as to the truth of the facts set out in the answer so that the same could be set up as an additional defense in the case at bar.

In reality, laches should never be imputed to a party when the question of "unclean hands" is concerned. The doctrine of unclean hands is a "universal rule, guiding and regulating the action of equity courts in their interposition on behalf of suitors for any and every purpose and in their administration of any and every species of relief."

Pomeroy's Equity Jurisprudence, Vol. 1, 4th Ed., Sec. 397.

From this it can be clearly seen that regardless of the activity or lack of activity of the parties to an action, it is the court's duty to deny to a complainant the use of a court of equity as soon as the court finds out that that party is in the court with unclean hands. This is not

strictly a defense—but is a protection given to courts to prevent their offices being used by unscrupulous litigants.

The District Courts of the United States have always been liberal in allowing amendments to pleadings and allowing the filing of supplemental pleadings under former rules 19 and 28. Under the new rules of civil procedure, however, in order to take away the necessity of citing the practice in the Federal courts, the rules themselves have been so amended as to leave no doubt regarding the policy of liberality in allowing amendments, inasmuch as under rule 15 the following words have been inserted regarding the duty of courts in allowing amendments: *"leave shall be freely given when justice so requires."*

Inasmuch as rule 15 above mentioned forms the foundation of our right to ask leave to file these amendments to the answer, we quote it, as to subdivisions (a) and (d) in full. for the reason that these portions of rule 15 particularly apply to this case:

> "RULE 15. AMENDED AND SUPPLEMENTAL PLEADINGS
>
> (a) AMENDMENTS. A party may amend his pleading once as a matter of course at any time before a responsive pleading is served, or, if the pleading is one to which no responsive pleading is permitted and the action has not been placed upon the trial calendar he may so amend it at any time within 20 days after it is served. Otherwise a party may amend his pleading only by leave of court or by written consent of the adverse party; *and leave shall be freely given when justice so requires.* A party shall plead in response to an amended pleading within the time remaining for response to the original pleading, or within ten days after service of the amended pleading, whichever period may be the longer, unless the court otherwise orders.

(d) SUPPLEMENTAL PLEADINGS. Upon motion of a party the court may, upon reasonable notice and upon such terms as are just, permit him to serve a supplemental pleading setting forth transactions or occurrences or events which have happened since the date of the pleading sought to be supplemented. If the court deems it advisable that the adverse party plead thereto, it shall so order, specifying the time therefor." (Emphasis ours.)

In the case of

Coblentz v. Sparks (District Court Southern District of Ohio), 35 Fed. Supp. 605,

the original bill of complaint was filed March 8, 1929. On April 17, 1939, *over ten years* after the date of filing the complaint, complainant filed a motion for leave to amend her second amended bill of complaint. The granting of the motion was opposed on the ground that

"plaintiff's application comes too late to be consistent with that diligence demanded by the law . . ."

The Court, however, in view of rule 15, Rules of Civil Procedure, granted the motion.

In the case of

Tahirerk v. Glenn L. Martin Co. (C. C. A. 4th, Jan. 1941), 116 Fed. (2d) 865,

plaintiff sued defendant, an airplane manufacturer, upon an agreement with plaintiff whereby it was alleged defendant agreed to pay plaintiff a commission for getting certain orders for airplanes from the Turkish Government. Defendant claimed the agreement had been cancelled.

The District Court granted a motion to dismiss the action because the complaint failed to set forth a claim upon which relief could be granted, and denied a motion

for leave to file an amended complaint. The Circuit Court of Appeals reversed the lower court, stating, at page 871:

> "The history to date of practice under the rules of Civil Procedure shows strong liberality among district judges in allowing amendments under rule 15(a) . . . (citing cases). Where the opposing party will not be prejudiced, the liberal allowance of amendment to pleadings is "a desirable compliment to restriction of objections for substance and form.' . . . The rule itself states that leave to amend 'shall be freely given when justice so requires.' (Rule 15(a).)"

The court held that,

> "judgment of the District Court is reversed, and the case is remanded to that court with directions to overrule the motion to dismiss, and for further proceedings not inconsistent with this opinion."

To the same effect is the case of

> *Wyant v. Crittenden* (Court of Appeals for District of Columbia, April 1940), 113 Fed. Rep. (2d) 171,

in which case summary judgment was given against plaintiff and in favor of defendant, and the denial of a motion of plaintiff to file an amended bill, the court reversing the lower court quoting Rule 15(a) Federal Rules of Civil Procedure and directing that,

> "the injunction of Rule 15(a) should have been observed in the lower court."

In the case of

> *Atwood, et al. v. National Bank of Lima* (C. C. A. 6th, Dec. 1940), 115 Fed. Rep. (2d) 861,

we have a case in which certain plaintiffs who were residents of states other than Ohio sued defendant, a resi-

dent of Ohio, for an accounting and payment to the individual plaintiffs of their proportion of a trust fund alleged to be in the hands of the defendant. The court held that the lower court had jurisdiction because of diversity of citizenship, but the suit was brought on the theory that the interests of all the plaintiffs exceeded $3000.00 and therefore, the jurisdictional amount was involved. No allegation was set up as to amount involved as concerned each separate plaintiff.

The court held that the interests of the plaintiffs were single and not joint, and that inasmuch as no allegation covering this point appeared in the complaint, the jurisdictional amount involved was insufficient. However, the upper court reversed the decision of the lower court, dismissing the action

> "in view of the command of rule 15(a) that leave to amend shall be freely given when justice so requires"

and held that the decision of the lower court should be reversed and the case sent back to the District Court

> "with instructions to permit the plaintiffs to amend the jurisdictional averments if all or any are able to do so; . . ."

In the case of

> *United States v. Lehigh R. Co.*, 220 U. S. 257, 55 L. Ed. 458.

this court reversed the Circuit Court of Appeals for the Eastern District of Pennsylvania for refusing to allow an amendment to a bill and dismissing a suit by the Federal Government to enjoin a railway carrier from interstate transportation of a commodity in which it was associated or in which it was interested. The railway company firmly contended that the upper court had no authority to review a judgment of a lower court refusing to

allow an amendment to a bill for the reason that it was discretionary with the court below and that that discretion cannot be reviewed. The court, however, held,

> "The conclusion cannot be escaped that an absolute abuse of discretion resulted from refusing to permit the amendment . . . deciding, as we do, that error was committed in denying leave to file the proposed amended bill the decree below is reversed and the cause remanded with directions for further proceedings in conformity with this opinion."

To the same effect is the case of

> *Perry Public Library Asso. v. Lobsitz* (Okla.). 45 L. R. A. (N. S.) 368.

The Circuit Court of Appeals, in taking this position, is in effect, totally wiping out that portion of the injunction of Rule 15(a), Rules of Civil Procedure for the District Courts of the United States, in laying down the rules for amendments in which the direction is given,

> "and leave shall be freely given when justice so requires."

In view of the fact that the proposed amendments set up a compulsory counterclaim under Rule 13 of the Rules of Civil Procedure for the District Courts of the United States, and which the Circuit Court of Appeals declared to be compulsory—[Opinion of Circuit Court of Appeals, Tr. pp. 367-368], and in view of the fact that the amendments are a complete defense to Universal's action, it would seem that justice would require that the amendments be permitted to be filed—unless some great prejudice is shown to Universal by reason of the delay—and there has been no attempt to show any prejudice whatsoever by Universal.

Conclusion.

It is therefore respectfully submitted that the judgment of the Circuit Court of Appeals for the Ninth Circuit herein should be reviewed by this court for the reasons, as hereinabove shown, that said judgment is in conflict with decisions of the other circuit courts of appeals, is in conflict with decisions of this court, and decides an important question of federal law of wide application and general interest patently incorrectly, and that therefore a writ of certiorari should be granted in order that this Court may review said decision of the Circuit Court of Appeals herein and reverse the same.

F. A. KNIGHT,

Counsel for Petitioner.

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IN THE

Supreme Court of the United States

October Term, 1941

No. 557

HANCOCK OIL COMPANY,

Petitioner,

vs.

UNIVERSAL OIL PRODUCTS COMPANY,

Respondent.

On Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit.

RESPONDENT'S BRIEF.

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IN THE

Supreme Court of the United States

October Term, 1941

No. .....

HANCOCK OIL COMPANY,

Petitioner,

vs.

UNIVERSAL OIL PRODUCTS COMPANY,

Respondent.

On Petition for Writ of Certiorari to the United States Circuit Court of Appeals for the Ninth Circuit.

RESPONDENT'S BRIEF.

To the Honorable Chief Justice and the Associate Justices of the Supreme Court of the United States:

Petitioner, Hancock Oil Company of California, by the petition for writ of certiorari prayed, seeks a review by Your Honors of a judgment and decree of the United States Circuit Court of Appeals for the Ninth Circuit affirming an interlocutory order of the United States District Court for the Southern District of California made in this case.

As pointed out in the majority opinion of the said United States Circuit Court of Appeals for the Ninth Circuit (120 F. 2nd 959), this interlocutory order was

a denial [R. 340-41]* of belated motions for leave to file (1) an amended and supplemental answer [R. 54-55] and (2) an amendment to its counterclaim [R. 128-29].

Petitioner, Hancock Oil Company, appealed to said United States Circuit Court of Appeals for the Ninth Circuit from the denial of said motions. It predicated its appeal upon *Jud. Code U. S., Sec. 129, 28 U. S. C. A., Sec. 227.*

Respondent moved said Circuit Court of Appeals to dismiss said appeal upon the ground that the order appealed from was not a final order so as to be appealable and therefore said United States Circuit Court of Appeals was without jurisdiction to determine said appeal. By a divided court, Respondent's said motion to dismiss said appeal was denied (115 F. 2nd 45), said court reserving until the argument of said appeal on the merits "Questions of appealability concerning the proposed amended answer's allegations, defensive in character to the allegations of the complaint and supplemental complaint, * * *" (115 F. 2nd 48). Circuit Judge Mathews dissented, saying: "Obviously, the order appealed from was not a final decision and hence was not appealable under Section 128(a) of the Judicial Code, * * *. Appellant concedes that the order was not appealable under Section 128(a), but contends that it was appealable under Sections 128(b) and 129 of the Judicial Code, * * *", and also said:– "The order here appealed from did not refuse an injunction. It merely refused leave to file a proposed amended and supplemental answer and a proposed amendment to a

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*(except as to a part not in issue or material to the consideration of the Petition herein)

counterclaim. The proposed amended and supplemental answer did not pray for an injunction. The proposed amendment to the counterclaim, if it had been allowed, would have incorporated in the counterclaim a prayer for an injunction; but the proposed amendment was not allowed. Hence, no application for an injunction was ever made or presented. Much less was there a hearing upon such an application." (115 F. 2nd 48.)

Subsequently said Circuit Court of Appeals affirmed the order denying Petitioner's motion for leave to amend its answer and counterclaim (120 F. 2nd 959), again by a divided court, Circuit Judge Mathews reiterating his former dissenting opinion that for the reasons before expressed by him (115 F. 2nd 48) the appeal should be dismissed (120 F. 2nd 962).

In limine. Respondent points out this diversity of opinion of the judges constituting the said Court of Appeals respecting the jurisdiction of said court to consider Petitioner's said appeal. In the event that a writ of certiorari is granted herein, the scope of such writ should not be limited so as to prevent Respondent presenting this question of jurisdiction for determination by Your Honors. Otherwise, Petitioner's right to petition Your Honors to grant writ of certiorari to review and determine this jurisdictional question may be lost.

The instant case has not been tried on its merits in the district court or any final decree entered therein. Respondent's cause of action, dependent upon the validity and the infringement of its patents, or Petitioner's pleaded

defenses of anticipation, want of invention and non-infringement, have not been adjudged.

The decree of the Circuit Court of Appeals herein sought to be reviewed is upon a purely interlocutory matter and order. Said decree of said Court of Appeals on said interlocutory matter is no more a final decree than is the interlocutory order of the district court sought to be reviewed by Petitioner's appeal from the district court. *John Simmons Co. v. Grier Bros. Co.,* 258 U. S. 82, at 89, 66 L. ed. 475, at 479.

This Court has said:– "There are much stronger reasons against the interposition of this court to review a decree made by the circuit court of appeals on appeal from an interlocutory order, than in the case of a final decree. * * * Whether an interlocutory order may be separately reviewed by the appellate court in the progress of the suit, or only after and together with the final decree, is matter of procedure rather than of substantial right; and many orders made in the progress of a suit become quite unimportant by reason of the final result, or of intervening matters. Clearly, therefore, this court should not issue a writ of certiorari to review a decree of the circuit court of appeals or appeal from an interlocutory order, unless it is necessary to prevent extraordinary inconvenience and embarrassment in the conduct of the cause." *American Construction Co. v. Jacksonville, Tampa & Key West Ry. Co.,* 148 U. S. 372, at 384, 37 L. ed. 486, at 491.

The district court's order was a denial of Petitioner's motion for leave to file an amended and supplemental answer and for leave to file an amendment to its counterclaim (R. 340; *Cf.* opinions C.C.A. 115 F. 2nd at pp. 46, 48; 120 F. 2nd at pp. 959, 960, 962).

This suit was filed in the district court March 12, 1935; a supplemental bill was filed March 31, 1936; defendant-petitioner's answer was filed July 30, 1936, and its counterclaim was filed on December 15, 1936. The case therefore came within *R. C. P. Rule 86,* that in cases pending prior to the adoption of the new Rules of Civil Procedure, if in the opinion of the district court the application of such rules "would work injustice," the Equity Rules shall apply. Under either the Equity Rules or the new Rules of Civil Procedure, a defendant cannot amend as a matter of right without leave of the court. Motions to amend pleadings are addressed to the discretion of the district court. This was true under either *Equity Rule 19* or *Rule 15* or *Rule 13, subd. (f) R. C. P.* Respondent has been able to find no conflict of authority upon this interpretation of said Rules. *No conflict of decision with respect thereto is presented by the Petition herein. Cf. In-a-Floor Safe Co. v. Diebold S. & L. Co.,* 91 F. 2nd 341, 342 (C.C.A. 9); *Liverpool & London & Globe Ins. Co. v. Nebraska Storage Warehouses, Inc.,* 96 F. 2nd 30, 37 (C.C.A. 8); *American Grain Separator Co. v. Twin City Separator Co.,* 202 F. 202, 206 (C.C.A. 8).

There Is No Conflict of Decision Respecting the Rule of Law Upon Which the Court of Appeals Herein Predicates Its Decision.

(1) The Dismissal of the Appeal From the Order Denying Leave to Amend the Answer.

The Court of Appeals herein affirmed the order denying Petitioner's motion to file its Amended and Supplemental Answer upon the ground that, "The order denying leave to file the amendment to the answer obviously was not a final order so as to be appealable under Section 128(a) of the Judicial Code, 28 U.S.C.A. Sec. 225(a). Nor is it appealable under Section 128(b) or Section 129 of the Judicial Code. 28 U.S.C.A. Secs. 225(b) and 227. There is no basis for contending that it is an appeal from an order refusing an injunction by an interlocutory order or decree so as to bring it within the last mentioned sections, as was the case with the order denying leave to file the amendment to the counterclaim." (120 F. 2nd at 960.) The appeal from this portion of the interlocutory order was dismissed. *The Petition herein does not present any conflict of authority upon this interpretation of the statutes.*

(2) The Affirmance of the Order Denying Leave to Amend the Counterclaim.

The Court of Appeals (majority opinion, 120 F. 2nd at 960, *et seq.*) affirmed the district court's order denying leave to amend the counterclaim because:- "In the circumstances we are unable to hold that the District Court abused its discretion in refusing leave to amend." (120 F. 2nd at 962.) As pointed out in said majority opinion of the Court of Appeals:- "No attempt was made (in

the district court by Petitioner herein) to show diligence on the part of Hancock (Petitioner herein) to ascertain the facts alleged in the proposed amendment to the counterclaim, or to keep in touch with other suits involving the patents here involved." (120 F. 2nd at 961.) This although, as pointed out in said Court of Appeals' opinion, the case had been at issue on defendant's answer and counterclaim since December 15, 1936, and it was not until April 9, 1939, over two years thereafter, when Petitioner first served notice of its motion to the district court for permission to file the amended answer and the amendments to the counterclaim (120 F. 2nd at 959). The Petition herein does not attempt to controvert the facts so found and stated in the Court of Appeals' majority opinion, in view of which facts said court finds there was no abuse of discretion by the district court in denying said motion. *Neither Petitioner's petition nor brief in support thereof points out any conflict of decision between any decisions of the respective circuit courts of appeals, or any decision of this Court, respecting the applicability of said lack of diligence or the failure of the record to establish an abuse of discretion by the district court.* On the contrary, the appeal herein to the Circuit Court of Appeals sought review of an interlocutory order denying leave to amend, based upon a proper exercise of judicial discretion by the district court, in the exercise of which judicial discretion by the district court the Court of Appeals has found no abuse.

Equity Rule 19 provided:– "The court may at any time, in furtherance of justice, upon such terms as may be just, permit any process, proceeding, pleading or record to be amended, or material supplemental matter to be set forth in an amended or supplemental pleading. * * *"

Rule 15 R. C. P. provides:- "A party may amend his pleading once as a matter of course at any time before a responsive pleading is served, or, if the pleading is one to which no responsive pleading is permitted and the action has not been placed upon the trial calendar, he may so amend it at any time within 20 days after it is served.* Said rule further provides:- "Otherwise a party may amend his pleading only by leave of court or by written consent of the adverse party; and leave shall be freely given when justice so requires. * * *." (120 F. 2nd at 960.) As pointed out in the majority opinion of the Court of Appeals (120 F. 2nd at 961-62), the purported matters and things sought to be pleaded, both in the amendment to the answer and in the amendment to the counterclaim, were matters of record of many years standing. The patents in suit issued in 1921, 1924 and 1925, respectively. The alleged cross-licensing agreements, according to Par. XXVII. of the proposed answer, were entered into in 1921, 1923, 1928, 1930 and 1931. The so-called issue of "unclean hands" proposed to be presented by the proposed amendments of the answer and counterclaim were presented in the case of *Universal Oil Products Co. v. Winkler-Koch Eng. Co.* and *Globe Oil & Refining Co.*, in Equity No. 10,744 in the United States District Court for the Northern District of Illinois, in which on July 27, 1938, the district court finally determined that the plaintiff was not guilty of "unclean hands," as charged in the defendant's answer in that suit and as proposed to be alleged in the proposed amendment to the answer and counterclaim here-

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*Petitioner herein cannot bring its motion within these provisions of this rule.

in. That case was *decided* approximately eight months before Petitioner served notice of its motion to amend its pleadings in the instant case. This is one of the prior adjudications referred to in the majority opinion of the Court of Appeals herein.– "It also appears that the trial court was presented with evidence to the effect that in one of these suits the alleged facts were tried and adjudged to be without merit." (120 F. 2nd at 962.) The record herein also discloses that the answer filed June 30, 1927 [R. 339] in the suit of *Universal Oil Products Co. v. The Texas Co.*, in the United States District Court for the Northern District of Illinois, for alleged infringement of the Dubbs Patent 1,392,629 (one of the patents herein sued upon) did not set forth any defense of "unclean hands" of plaintiff and made none of the allegations asserted in Par. XXVI. of the proposed amended answer. This although the so-called "unclean hands" defense is based upon purported facts and acts against and with which said The Texas Company was directly concerned, and as to the true facts said The Texas Company had full knowledge at all times.

The Petition herein presents solely as "The Questions Presented" (petition, p. 8): "Is the denial by the District Court in a patent infringement suit of the motion of Hancock for leave to file amendments to its answer and counterclaim a *gross abuse of discretion* * * *." The facts with respect to the lack of diligence in making the motions to amend are found in the majority opinion of the Court of Appeals, which specifically determines that there was no showing before the district court of any reason why the proposed amendments were not diligently presented; that by the exercise of reasonable diligence every one of such allegations and purported facts could

have been discovered as existent in divers answers and counterclaims in long previously pending suits, as to which a mere application to the file-wrappers of the respective patents in the United States Patent Office would have given full notice to Petitioner. These were matters of previous court records available to Petitioner, as pointed out in the majority opinion of the Court of Appeals herein. The Petition herein attempts (p. 8) to make a part of "The Questions presented" an assertion that the additional facts set up a valid, compulsory counterclaim for an injunction. *No conflict of decision* between the circuit courts of appeals and any decision of this Court is presented, respecting interpretation of *Subd. (f) of Rule 13 R.C.P.*; no decision is cited by Petitioner holding that *Rule 13, subd. (f)* makes it obligatory upon the district court to permit the presentation of an omitted counterclaim, regardless of the question of diligence, merely because it is a compulsory counterclaim. *Subd. (f)* of said *R. C. P. Rule 13* provides solely that such defendant may *"by leave of court"* set up the counterclaim by amendment. No decision is cited, and Respondent can find none, which holds that an application to amend under *Subd. (f)* of said *Rule 13* is not an appeal to the discretion of the district court under the presented facts of the instant case and motion. It would seem very strange indeed that the permission granted by *Subd. (f)* of said *Rule 13* is conditioned upon leave of court, if the district court, to whom such application is made, must grant such leave without regard to any question of diligence in presentation of the proposed amendment.

Conclusion.

It is respectfully submitted that the Petition for writ of certiorari herein should be denied.

The Petition presents only for review an interlocutory order. No final disposition of the suit has been made; no final decree entered. The case is an ordinary patent case. There is no conflict of decision respecting any of the matters urged by the Petition herein.

Respectfully submitted,

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